

NRECA EMPLOYEE BENEFITS

Invest in Yourself

National Save for Retirement Week

**Welcome to the
National Save for Retirement Week
Web Conference**

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For Technical Support

- If you're listening over the phone, please press *0.
- If you're listening through your computer speakers, email nreca_assist@commpartners.com.

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How to Submit Your Questions Online

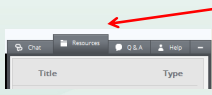
Step 1: Type in your name.

Step 3: Click on the Submit Question button.

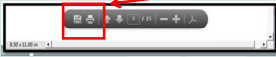
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To Download the Program Files...



1. Click on the Resources tab to the right of the presentation window to open the presentation slides or handout.



2. Click on an icon to print or save the file.

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**Know Your Numbers –
How to Achieve Your Retirement Goals**

Chris Hodges, CFP®
Investment Advisor



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**When You Think of Retirement,
What do You See?**



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Possible Retirement Goals

- See the world!
- Work the farm
- Volunteer in the community
- Be with family and friends
- **Have financial freedom**

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New Retirement Challenges

- People are living longer
- Social Security and Medicare will change
- Health care expenses are rising quickly
- Most people will manage their own pension money

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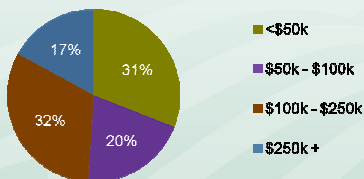
The Concerns

- People aren't **saving** enough
- People are **withdrawing** their money too quickly
- People are not **planning** for their retirement

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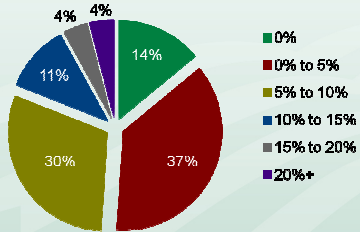
Is This Enough?

401(k) Pension Plan balances for people age 50+



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401(k) Pension Plan Contribution Percentages



The amount of money participants are contributing to their 401(k) account as a percentage of salary.

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Withdrawing Too Quickly

We need to withdraw at a rate that has a high probability of lasting the *rest of our lives*.

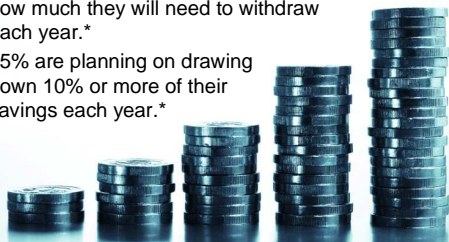


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Withdrawing Too Quickly

- 34% of people surveyed have no idea how much they will need to withdraw each year.*
- 15% are planning on drawing down 10% or more of their savings each year.*



*Barney Lee, "Americans All Over the Map on Retirement Drawdown Rates," October 13, 2011

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As a rule of thumb, do you know how much you can “safely” withdraw from your nest egg in the first year of retirement?

- A) 3%
- B) 4%
- C) 6%
- D) 8%
- E) 10%

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Withdrawal Rule of Thumb

A retiree can “safely” withdraw no more than approximately **4%** from his/her retirement nest egg in the first year of retirement (including taxes!).



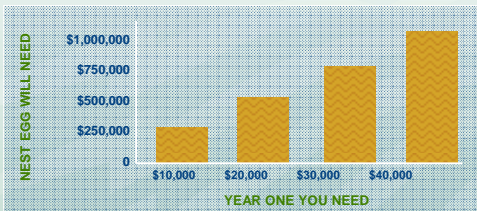
(Based on various retirement studies. Assumes distributions increase each year with inflation, and a duration of 30 years.)

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Example:

For every **\$10,000** in income that you need in the first year of retirement, **\$250,000** needs to be set aside as a nest egg.*



* Based on the 4% withdrawal rate rule of thumb.

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Not Planning for Retirement

More than half (**56%**) of people surveyed report they have not tried to calculate how much money they will need to save by the time they retire so they can live comfortably in retirement.*

*EBRI – March 2012

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Have you personally worked with a professional financial planner (either a PIRC investment advisor or private financial planner) to ensure that you are on track for financial freedom in retirement?

Less than half (46%) of this year's attendees at NRECA Benefits Update Conference have personally worked with a professional financial planner.

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When Working With a Financial Planner

Start with two main goals:

1. **Expenses** in retirement
2. **Age** to retire

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INFLATION The Rule of 72

72 ÷ Rate of Inflation
= How many years for prices to double



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72 ÷ 4%
= 18 years to double



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Inflation Examples

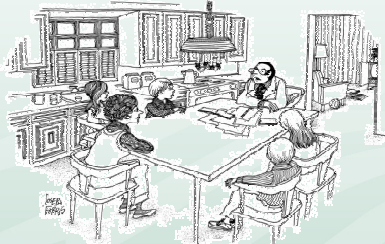
	1980	Today
Big Mac	\$1.20	\$3.79
Movie ticket	\$3.30	\$10.00
New car	\$7,500	\$23,000
½ gallon ice cream	\$1.70	\$4.50
A new yacht	\$19M	\$64M



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Effects of Inflation



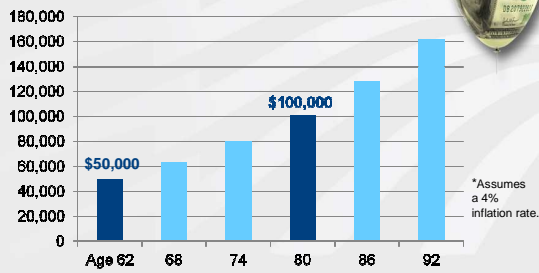
"I've called the family together to announce that, because of inflation, I'm going to have to let two of you go."

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Effect of Inflation on Retirement Expenses Over Time*



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The Effect of Age on Retirement

- Males (that reach age 65)
 - 50% chance of living beyond 85
- Females (that reach age 65)
 - 50% chance of living beyond 88
- Couples (both reach age 65)
 - 50% chance of one living beyond 92



Source: Transactions of the Society of Actuaries Annuity 2000 Table for Males and Females

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Age – The Effect of Retiring Later

- Higher **Social Security** payments
- Closer to the start of **Medicare** (age 65)
- More years of **savings**
- Fewer years of **withdrawals**



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Summary

- People not **saving** enough
- People **withdraw** too quickly
- Effect of **inflation**
- Effect of **retiring later**
- People are not **planning** for their retirement

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Retirement Planning 2 Part Process

Part A.

What's your number?
(Total money needed at retirement)

Part B.

Are you on track?

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Meet Bill & Shirley

- Married, current age **52**
- Retirement age: **62** (for 30 years)
- Typical living expenses: **\$35,000/year**
- Health care: **\$10,000/year**
- Social Security: **\$27,000** (at age 62 from SSA.gov estimate – combined)



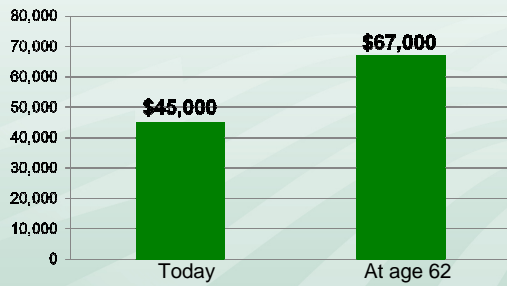
Can they retire
with financial freedom?

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Part A.

Retirement Expenses with 4% Inflation



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Part A.

Income Needed After Social Security

\$67,000 (future expenses – age 62)
- **\$27,000** (future Social Security)

\$40,000

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But . . .

We have to take into account:

TAXES

If we assume a 20% combined Federal and state tax rate, \$40,000 really needs to be **\$50,000**.

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How much pre-tax money will Bill and Shirley need on the first day of retirement to withdraw **\$50,000 per year** (adjusted for inflation) and last 30 years?

- A) \$500,000
- B) \$750,000
- C) \$1,000,000
- D) \$1,250,000
- E) \$1,500,000

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Our savvy attendees at this year's Benefits Update Conference got the answer right: **\$1,250,000**. Did you?

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Part A.

Bill & Shirley

So for Bill and Shirley to create an income of **\$50,000** per year, they would need a before-tax nest egg of **\$1,250,000** by the first day of retirement.



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Part A.

\$1,250,000 (pre-tax)

Can they do it?

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Part B.

HOW TO GET THERE

Goal = \$1,250,000 on first day of retirement

- Step 1. **Current investments** at age 62
- Step 2. **Estimated RS Plan benefit** at age 62
- Step 3. **Current monthly contributions** by age 62
- Step 4. Calculate **surplus or shortage**

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Part B.

Step 1

Bill & Shirley's Current Investments

Current investment values:

401(k)s = \$225,000

IRAs = \$40,000

Other investments = \$60,000

Total = \$325,000

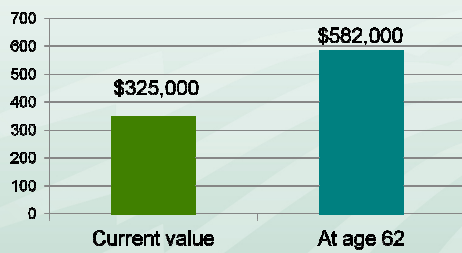
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Part B.

Future Value of Current Investments at Age 62



*Assuming a 6% return.

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Part B.

Getting there...

\$ 1,250,000 Total need

\$ (582,000) Future value of current investments

\$ 668,000 Shortage

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Part B.

Step 2

Retirement Security Plan Projection

- Bill at age 62 . . .

\$500,000
lump sum



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Part B.

Getting there...

- \$ 1,250,000 Total need
- \$ (585,000) Future value of current investments
- \$ (500,000) Projected RS Plan benefit
-
- \$ **165,000** Shortage

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Part B.

Step 3

Current Monthly Contributions

- Current monthly contributions to 401(k) = \$800 per month
- \$800 per month at 6% average return for the next 10 years = **\$132,000**

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Part B.

Getting there...

- \$ 1,250,000 Total need
- \$ (582,000) Future value of current investments
- \$ (500,000) Projected RS Plan benefit
- \$ (132,000) Additional monthly contributions

\$ 36,000 Shortage

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Choices if Short

- Save more
- Invest more aggressively
(which would result in increased risk)
- Reduce expectations



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Choices if Short

- Delay retirement
- Part-time work
- Las Vegas!!!



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What Bill & Shirley Did

To make up \$36,000 by age 62
at a 6% return, Bill and Shirley saved
\$218 more each month for 10 years

= \$36,000

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Bill & Shirley after PIRC meeting!



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Are you confident that you will have enough
money at retirement to have financial
freedom like Bill and Shirley?

60% of our attendees at the Benefits Update
Conference said **no**.

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Next Action Steps

- Know your budget
- Inventory your retirement investments
- Get an updated RS Plan benefit projection

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Next Action Steps

- Get a future estimate of your 401(k) account
- Get an updated Social Security estimate
(SSA.gov – Social Security website)
- Contact a PIRC investment advisor

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PIRC Benefits

No additional cost for:

- Financial planning **seminars** at your co-op
- Private financial **consultations** in person/over the phone
- Personal and confidential **retirement analysis** by a PIRC investment advisor

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Private Financial Consultations Include:

- Providing **projections** of future 401(k) and RS Plan benefits
- Helping you understand the different **401(k) investment options**
- Reviewing **investment concepts** such as dollar-cost averaging, asset allocation, diversification, rebalancing, compounded returns
- Pros and cons of taking the RS Plan **annuity** versus **lump sum**

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Just Do It!

- We only get ONE retirement — there are no “do-overs”
- Make an appointment with the PIRC team

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How to Submit Your Questions Online

Step 1: Type in your name.

The screenshot shows a web browser window with a Q&A form. The form has a 'Name:' field with the placeholder text 'First & Last Name' and a 'Question:' field with the placeholder text 'What do you think about this?'. Below the question field is a 'Submit Question' button. Green arrows point to the 'Name' field (labeled Step 1) and the 'Submit Question' button (labeled Step 3).

Step 3: Click on the Submit Question button.

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Thank You!

Personal Investment & Retirement Consulting
(PIRC)
866.673.2299
(option 5, then 2)
pirc@nreca.coop

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